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International Migration and Employment in Australia

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Abstract

The paper describes the evolution of migration policy in Australia from the 1950s onwards. It focuses in particular on the period after 1995 when the Australian Government concentrated its migration program on skilled immigrants, both permanent and temporary. While conceived as separate programs, over time, the permanent and temporary movements have been merged so that most new permanent skilled immigrants make an application on shore while holding a temporary resident visa. This approach seems to have served Australia well in a time of strong labour demand and a dwindling domestic supply of labour. Australia's international program will be important in the future as it slows the pace of population ageing and provides necessary skills to an otherwise static labour force.

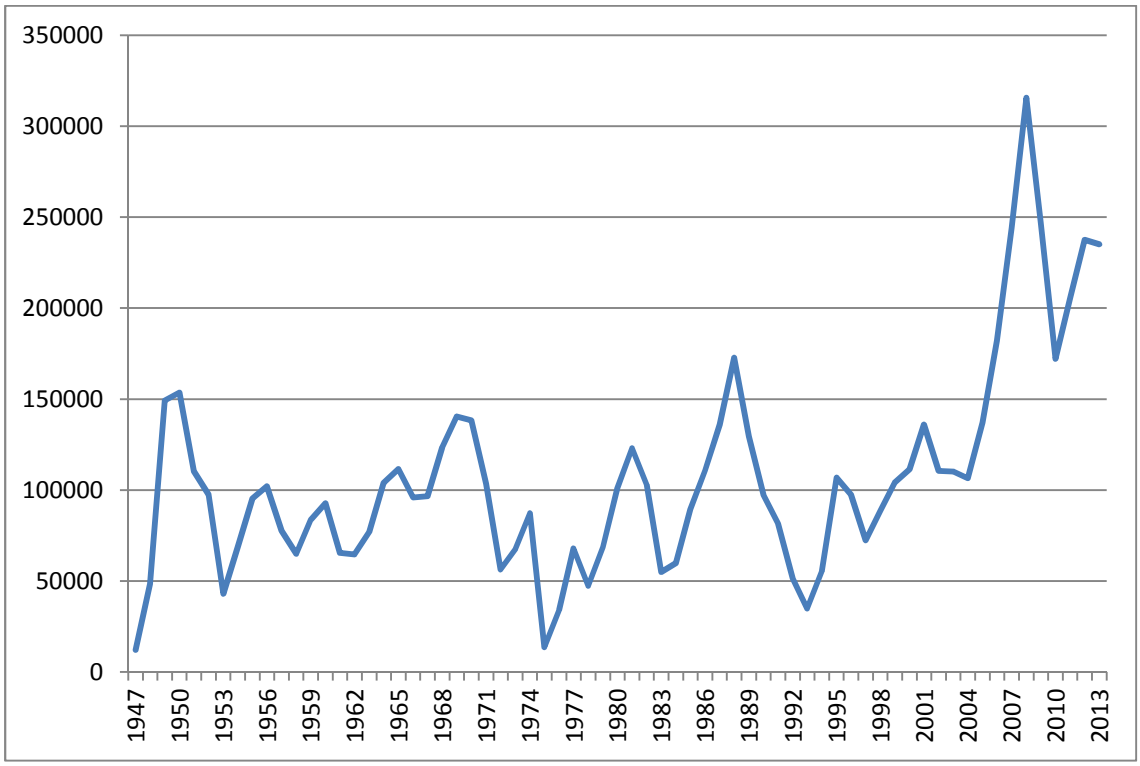
Keywords

International migration, Australia, employment, temporary skilled migration

Historical background

Aside from brief surges in immigration immediately before and after the First World War, levels of immigration to Australia were low from 1890 to 1947. By 1947, only 2 per cent of the population had origins outside of Australia, New Zealand and the British Isles. Following the Second World War concern was expressed by the post-war planners that a small population meant a small economy and this would leave Australia vulnerable in a precarious political and economic world. A central policy approach to this situation was to expand the manufacturing industry using migrant labour. The post-war migration program was established and geared up very rapidly with net migration reaching a new historical peak at around 150,000 in both 1949 and 1950 (figure 1).

Figure 1. Net overseas migration, Australia, 1947-2013



Sources: Australian Bureau of Statistics (2014, 2015a).

With insufficient numbers available from Britain, recruitment spread to the war-torn continent of Europe. By 1971, over a million immigrants had arrived from various European countries, such as Italy, Yugoslavia, Greece, Germany and the Netherlands, and the population born in Continental Europe matched that born in Britain (table 1). Migration from other parts of the world remained low before 1971 because of the continuation of a racially discriminatory policy, but this policy was ended in the early 1970s. Due to an economic downturn, the level of migration was relatively low during the 1970s but hit peak levels again in the early 1980s with many Vietnamese refugees being settled in Australia.

By the 1980s, the Australian migration system was based on permanent residence with applications made offshore. Up to the mid-1990s, migrants arrived as skilled or unskilled workers or as family members or refugees without a strict delineation between these categories. Levels of migration rose and fell in consort with trends in labour demand as governments opened the gates wider in times of strong labour demand

Table 1. Birthplaces of the Australian Population, 1971 and 2011 (000's)

Birthplace	1971	2011
British Isles	1089	1168
Other Europe (a)	1122	1128
West and Central Asia	46	255
South Asia	45	496
East Asia	30	568
Southeast Asia	33	745
Africa	62	359
USA and Canada	43	123
Latin America and Caribbean	13	114
Pacific	16	137
New Zealand	80	513
TOTAL OVERSEAS	2579	5606
Australia	10177	15902

(a) Includes Turkey (35000 in 2011)

Sources: 1971: Price (1987); 2011: derived by the author from 2011 Census Community Profile tables. People with country of birth not stated have been distributed evenly across the stated categories (1.21 million in 2011).

and closed them during recessionary periods. The contrast was most notable in the late 1980s when net migration rose to a then record high level in 1988 but rocketed downwards following the recession that began in 1990. Many of the immigrants that arrived in the late 1980s were not able to find jobs for several years as a result of the recession. This was the backdrop for a significant shift in Australia's approach to migration that is still evolving today.

Skilled migration: initiation and evolution

The rationale for change was that, in the interests of Australia's economic development, migration should be targeted at occupations where skill shortages were impeding productive investment. Two important changes of direction took place in 1995. First, a points system was introduced in the selection of new permanent residents with the points being determined by the skill level of the applicant, and entry was limited to those with higher-level skills. Points were awarded for qualifications, work experience, age and English proficiency. Second, in a global economy in which there is a global labour market for those with the highest skills, the view was taken that a more comprehensive and efficient form of temporary skilled migration was required. Importantly, the temporary skilled migration scheme provided a central role for employer sponsorship in the migration programme by providing a streamlined approach in a market where speed plays an important role. The permanent migration process and the existing forms of temporary migration were slow, cumbersome, sometimes complex and somewhat unpredictable. The temporary migration scheme also enabled multinational companies to move their employees into and out of Australia much more effectively. Thus, temporary migration served as an incentive for such companies to have a base in Australia.

When these changes were made in 1995, the skilled permanent and the skilled temporary visa programmes were conceived as largely unrelated entities. Since then, however, they have gradually been merging into a single system in which permanent migration is preceded by a period of temporary migration. This has been achieved through a series of changes in practice that have enabled applicants for permanent migration in the skill stream to nominate or be nominated while onshore in Australia. Temporary employment enables the employer to assess the suitability of the migrant employee and for the migrant to assess both the employer and life in Australia. This 'try before you buy' approach has been

highly beneficial in meeting the skilled labour needs of employers and in providing continuous employment for the skilled migrant. The result has been a continued expansion of the employer-nominated component of the permanent skilled migration program. In 2013-14, two-thirds of all employer-nominated permanent resident visas were granted to persons holding a temporary skilled worker visa.

At present, the permanent skilled migration programme is divided into two main streams: the employer-nominated stream and the skilled independent stream. Those applying for permanent residence in the independent skilled stream must have an occupation on a relatively narrow list of occupations (i.e. the Skilled Occupations List), which is updated from time to time. Those nominated by an employer (or by a state or territory government) for permanent residence can be nominated for positions in a much wider range of occupations, effectively all managerial, professional and skilled trade occupations. Called the Consolidated Skilled Occupations List, this list is also used in the approval of temporary skilled workers.

The perceived success of merging temporary skilled and permanent migration and continuing strong demand for labour in Australia led to a further evolution that enabled international students and working holiday makers (backpackers) to also nominate or be nominated by an employer for permanent residence onshore. Alternatively, international students and working holiday makers take up employment via a temporary skilled worker visa (subclass 457) with the aim of transitioning to permanent residence at a later date. In 2012-13, 36 per cent of new subclass 457 visa grants and 16 per cent of employer-nominated permanent resident grants were made to persons already in Australia holding a student or working holiday visa.

In 2012-13, 129,000 people were awarded permanent residence in the skilled migration stream but only 40,600 people were counted into the Australian population as new arrivals in the permanent skilled migration category. This is because the others had already been counted into the Australian population under a temporary visa category before their permanent residence was granted. In the year ended 31 December 2014, net migration to Australia was 226,000. Of this number, 170,000 (75%) were people holding some form of temporary residence visa. Another recent change enables any international student to remain in Australia for two years with full work rights after completing a bachelor degree. The time that a graduating student is permitted to remain in Australia increases to three years for students with a master degree and to four years for students with a PhD degree. During this period, the student can seek to remain in the country through movement to a temporary or permanent skilled migration visa.

Encouragement of a 'pathways' approach to permanent residence is continuing through consideration at present of a new, one-year temporary work visa that would be highly flexible. It would not be renewable but holders could transition onshore to a subclass 457 visa enabling successful applicants to continue working in Australia for up to another four years. The reforms under discussion would also enable easier transition from a 457 visa to permanent residence, most importantly, by allowing a temporary skilled visa holder to apply for permanent residence without being sponsored by an employer.

Thus, the story of policy change in Australia is one of movement from a cumbersome, inflexible, untargeted migration programme to one that is highly flexible based on initial temporary residence and responsive to shifts in labour demand both in terms of numbers and occupations. The outcome has been a huge surge in migration from 2006 onwards (figure 1) with annual net migration moving from an average of about 90,000 per annum to an average of well over 200,000 per annum. As described below, strong labour demand generated by a shortage of local workers has underpinned this increase.

Associated changes in the origins of immigrants

The other highly significant trend has been the movement away from the formerly traditional sources of immigrants to immigrants from Asia. This reflects the ending of racial discrimination, increasing engagement of Australia with Asia in both economic and social terms and the predominance of Asian students among international students studying in Australia. The impact on the composition of the Australian population is evident in table 1 which shows that, between 1971 and 2011, the numbers of Australians that were born in the British Isles and other parts of Europe hardly changed at all while the numbers born in other parts of the world, especially Asia, expanded dramatically. The 154,000 migrants born in Asia in 1971 had expanded to 2,064,000 by 2011, with the migrants coming in substantial numbers from all regions of Asia. The individual countries that stand out in this migration from Asia are in rank order: China, Vietnam, India, the Philippines and Malaysia. From 1971 to 2011, the numbers from Asia grew by more than 13 times, from Africa by almost six times, from Latin America by almost nine times, from the Pacific by almost nine times and from New Zealand by more than six times. In the period after 1971, immigrants came to Australia from almost all countries of the world. Because no single source country has dominated the movement, cultural adjustment has proceeded gradually and relatively smoothly.

Immigration and the Australian labour force

The policy shift to skilled migration, both permanent and temporary, should have improved the employment outcomes of migrants, especially in the period immediately after arrival. In keeping with this hypothesis, Cully (2012) has shown that participation rates among migrants rose sharply from 2000 onwards and that the increase in participation among migrants was a substantial component in the increase in aggregate participation for Australia as a whole. An important consideration here is that a majority of new permanent residents are not skills tested because they are the partners of skilled migrants or they have entered through the family stream, principally as the partners of Australian citizens or permanent residents. Women outnumber men by about two to one among partners of skilled migrants and partners in the family stream. However, a survey of partners in the skilled and family streams has shown that, on average, these immigrants are much more highly skilled and somewhat more likely to be employed than non-migrants of the same age and sex (McDonald, 2013). The positive contributions of immigrants to participation and employment were also confirmed in modelling by Independent Economics (Migration Council of Australia, 2015).

Between June 2000 and June 2014, the Australian labour force grew by 1.9 per cent per annum while, in the same period, the population grew by 1.5 per cent per annum. To have the labour force growing more rapidly than the population is a favourable economic outcome but the strong growth of the labour force was not predicted. Labour force projections made by the Australian Bureau of Statistics (ABS) in 1999 (ABS, 1999) estimated that the labour force growth rate in this period would be 0.8 per cent per annum, considerably lower than the recorded growth rate from 1977 to 1998 of 1.9 per cent and the actual growth in the 1999 to 2014 period, also 1.9 per cent. In numerical terms, the ABS had projected the labour force to increase between 1999 and 2014 by 1.27 million by 2014. The actual growth was considerably more at 2.83 million. Two main factors accounted for the difference between the projection and the actual outcome: much higher levels of labour force participation at older ages than had been projected and much higher levels of migration (1).

The projected and actual increases in participation at older ages are shown in table 2. The substantial

Table 2. Comparison of June 2014 labour force participation rates at older ages as projected in 1999 by ABS and as actually occurred

Sex	Projected and actual	Labour force participation rate by age group		
		55-59	60-64	65+
Males	June 2014 as projected in 1999	70.8	47.7	10.7
	June 2014, actual	80.2	63.8	17.3
Females	June 2014 as projected in 1999	54.1	23.3	2.8
	June 2014, actual	67.1	45.9	8.5

Sources: Australian Bureau of Statistics (1999, 2015b).

increases in participation over this period were predicted by McDonald and Kippen (1999) but these predictions were not taken up by the ABS, the Department of the Treasury or the Productivity Commission in labour force projections made in the first decade of the 21st century (McDonald, 2012). The level of net migration assumed in the 1999 ABS labour force projections was 70,000 per annum. In reality, in the years, 2000-2013, net migration averaged 182,000 per annum.

These substantial and unpredicted increases in participation and net migration could not have been sustained without continued strong labour demand in Australia. The dominant contributions of increased participation at older ages and immigration to employment growth in Australia are shown clearly in table 3. In the five-year period from 2009 to 2014, employment in Australia increased by 795,000 people.

Table 3. Decomposition of sources of increase in employment in Australia, 2009-2014

Increase in employment, 2009 to 2014	
	Number
Non-migrants aged less than 55 years	-137,000
Non-migrants aged 55 and over	329,000
Migrants, 2009 to 2014	603,000
TOTAL	795,000

Note. A non-migrant is a person present in Australia at 30 June 2009
Source: Author's calculations from Australian Bureau of Statistics (2015b).

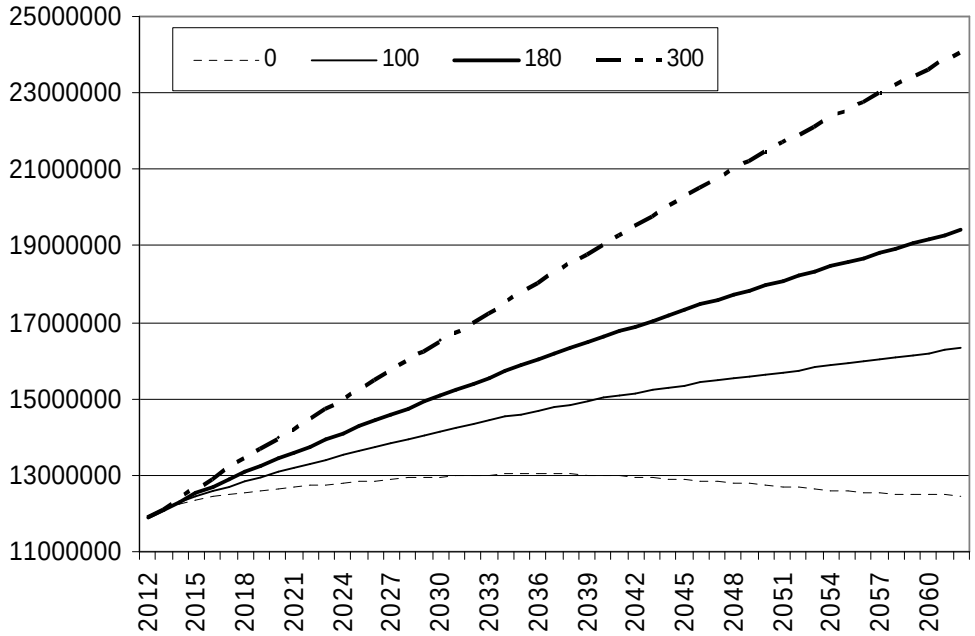
More than 100 per cent of this increase was made up of 603,000 migrants who had arrived in the five-year period and 329,000 additional workers at older ages. Employment of non-migrants aged less than 55 years fell in this period by 137,000 with most of this fall being due to extension of education at younger ages. Unemployment increased by only 11,000 in the same five-year period and more than 100 per cent of this increase was related to women aged 35-54 years (2).

If age and sex-specific labour force participation rates were to remain constant into the future, any further growth in the Australian labour force would have to come from migration. Figure 2 confirms that the labour force would stagnate if net migration was zero but substantial growth results from positive levels of net migration. McDonald and Temple (2009) have shown that reasonable future levels of net migration have a much bigger impact on future labour supply than reasonable increases in labour force participation rates.

Thus, Australia has entered a new era in its labour force history in which, in the absence of migration, the numbers entering the labour force at younger ages are matched by the numbers leaving the labour force at

older ages. Over time, with zero migration, the annual number of births would fall progressively. Thus, each new generation entering the labour force would be smaller than the prior generation (3). The simple implication is that future growth in the labour force must come primarily from migration.

Figure 2. Labour force outcomes for Australia with varying levels of net annual overseas migration (zero, 100,000, 180,000 and 300,000) (a)



(a) Assumes that age-sex labour force participation rates remain constant and the rates for migrants are the same as those for the non-migrants.

Source: McDonald, P. and Jeromey Temple (2014).

Migration moderates the ageing of the population

On average, migrants to Australia are young with a median age of 25 years. Because this is much younger than the median age of the non-migrant population (37.3 years in 2014), the entry of migrants tends to slow the ageing of the population. In addition, because of their age, many migrants enter the child-bearing ages after they arrive in Australia, and their subsequent childbearing increases the number of births (4). For example, with zero net migration from 2013 to 2053, there would be 11.3 million births in this 40-year period. With net migration of 240,000 per annum (the level projected by the Australian Bureau of Statistics in its 2013 projection of population), the number of births in the same period would increase to 15.4 million. Furthermore, with net migration of 240,000, the annual number of births would continue to rise throughout the next 40 years. The combined effect of the migrants and their children upon the age structure of the population is shown in table 4. With zero net migration, the percentage of the population aged 65 years and over would increase from 14.0 per cent in 2013 to 28.4 per cent in 2053. With migration of 300,000 per annum, only 21.2 per cent of the population would be aged 65 years and over in 2053. The percentages in the working ages, 15-64 years, move in the opposite direction with this percentage being six points higher with the high level of immigration compared with zero migration.

Table 4. Impact of varying levels of net annual overseas migration on the age structure of the population, Australia, 2053

Level of net annual overseas migration	Population aged 15-64 in 2053 (percentage)	Population aged 65 and over in 2053 (percentage)
0	56	28.4
100,000	58	25.2
180,000	60	23.4
300,000	62	21.2
Per Cent in 2013	67	14.0

Source: McDonald, P. and Jeromey Temple (2014).

Immigration and GDP per capita

Per capita gross domestic product, a frequently used measure of living standard, is the product of the employment to population ratio and output per worker. If the employment to population ratio falls because of population ageing, GDP per capita will also fall unless there is a commensurate rise in output per worker (labour productivity). However, as just described, the Australian employment to population ratio rises with increases in migration. This means that if labour productivity is at least as high for migrants as it is for non-migrants, migration will increase the growth rate of GDP per capita. The effect of varying migration levels upon the future growth rate of GDP per capita in Australia is shown in figure 3 under the assumption that labour productivity is the same for migrants as for non-migrants and its growth rate is constant across the projection period at 1.6 per cent per annum. The ageing of the population (fall in the employment to population ratio) has a large impact on the growth rate of GDP per capita between 2013 and 2023 because of the retirement from the labour force of the baby boom generation. For example, with zero migration, the growth rate of GDP per capita would fall from 1.83 per cent in 2013 to 1.33 per cent in 2023 simply because of the ageing of the population. The figure shows that this impact is mitigated to a meaningful extent by migration both in the short-term and the long-term. The impact of the additional births to migrants has an evident secondary impact on the growth of GDP per capita in the 2030s and 2040s.

Beyond this employment to population ratio effect on the growth of GDP per capita, if migrants are more skilled than non-migrants or if migrants fill pivotal roles in new investment endeavours, migration will also have the effect of increasing labour productivity. There is some evidence that this is the case in that the education levels of migrants are well above the general education level of the population. Furthermore, contrary to the popular perception, two studies have shown that migration in Australia, through its stimulatory effects, increases the wages of low-wage workers (Peri, Docquier and Ozden, 2010; Migration Council of Australia, 2015). In the international comparative study, this result was only evident for two countries, Australia and Singapore, both of which run large skilled migration programs (Peri, Docquier and Ozden, 2010).

There is also an argument that young workers are an important source of economic dynamism and that they are the assimilators of new technology in each era of new technology (McDonald and Temple, 2006). The skilled migration program that Australia runs substantially shifts the median age of the labour force to a younger age than would be the case with no migration. Many new skilled immigrants are recent

Figure 3. The percentage annual growth rate of GDP per capita under varying assumptions of the level of net overseas migration (0, 100,000, 180,000 AND 300,000)(a)

(a) Assumes that age-sex labour force participation rates remain constant and are the same for migrants and non-migrants. The growth rate of labour productivity is also assumed to remain constant at 1.56 per cent per annum and migrants and non-migrants are assumed to have the same level of labour productivity.

Source: McDonald, P. and Jeromey Temple (2014).

graduates of the Australian university system and therefore can be expected to have skills that are well honed to the needs of the Australian labour market (Migration Council of Australia, 2015). Over the next 40 years, largely because of migration, Australia will experience significant increases in the number of its young workers. Many other OECD countries will experience the opposite: rapidly declining numbers in the young working ages.

Concluding remark

The paper presents a strong argument that the shift to a skilled migration program in the mid-1990s and the merging of the permanent and temporary migration programs has produced major benefits for the Australian economy. These benefits include the partial mitigation of population ageing, providing a targeted approach to labour supply shortages and a system that is responsive to shifts in labour demand, improving labour productivity, higher levels of growth of GDP per capita, and higher wages for low-wage workers.

Endnotes

(1) In contrast to what actually occurred, the ABS in its 1999 report said: 'changes in participation rates and the components of population growth (birth and death rate and overseas migration levels) will have a relatively small impact on the future labour force' (ABS, 1999: 4).

(2) Many of these may have been sole parents who lost eligibility for the sole parent pension with a policy change that shifted these women to the unemployment benefit when their youngest child reached six years.

(3) Assuming a relatively high total fertility rate of 1.9 births per woman.

(4) Migrants do not have a higher fertility rate than the native population. In fact, on average, their fertility rate is a little lower than Australian-born women. However, migrants add to the number of women of childbearing age and this leads to a much higher number of births than would otherwise have been the case.

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